# REPORT OF THE AUDIT OF THE FORMER FULTON COUNTY CLERK

For The Period January 1, 2005 Through June 7, 2005



## CRIT LUALLEN AUDITOR OF PUBLIC ACCOUNTS

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#### **EXECUTIVE SUMMARY**

### AUDIT EXAMINATION OF THE FORMER FULTON COUNTY CLERK

#### For The Period January 1, 2005 Through June 7, 2005

The Auditor of Public Accounts has completed the former Fulton County Clerk's audit for the period January 1, 2005 through June 7, 2005. We have issued a qualified opinion on the financial statement taken as a whole. The former County Clerk did not provide us with a signed representation letter as required by auditing standards generally accepted in the United States of America.

#### **Financial Condition:**

There were no excess fees earned from January 1, 2005 through June 7, 2005. The former County Clerk has a current year deficit of \$13,150 and a prior year deficit of \$18,644 for an accumulated deficit of \$31,794 as of June 7, 2005. The former County Clerk has undeposited receipts of \$2,777 in the 2005 official fee account and \$9,533 in the 2004 official fee account for an accumulated total of \$12,310 of undeposited receipts. The Office of the Attorney General is conducting an investigation of these findings.

#### **Report Comments:**

- The Former County Clerk Should Not Have A Deficit Of \$31,794 In Her Official Fee Account As Of June 7, 2005
- The Former County Clerk Should Not Have Undeposited Receipts Of \$2,777 In The Official Fee Account From January 1, 2005 through June 7, 2005
- The Former County Clerk Expended \$2,372 More To Operate County Clerk's Office Than The Income Earned By The Office
- The Former County Clerk Should Remit \$37,463 In Unpaid Obligations
- The Former County Clerk Should Have Deposited Funds Intact On A Daily Basis
- The Former County Clerk Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Former County Clerk Should Have Submitted Quarterly Financial Reports To The Governor's Office For Local Development
- The Former County Clerk's Office Lacks Adequate Segregation Of Duties

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### CRIT LUALLEN AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harold Garrison, Fulton County Judge/Executive Honorable Lesia LaRue, Former Fulton County Clerk Members of the Fulton County Fiscal Court

#### Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees regulatory basis of the former County Clerk of Fulton County, Kentucky, for the period January 1, 2005 through June 7, 2005. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in <u>Government Auditing Standards</u> issued by the Comptroller General of the United States, and the <u>Audit Guide for County Fee Officials</u> issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The former County Clerk did not provide us with a representation letter as required by auditing standards generally accepted in the United States America.

In our opinion, except for the effects of any matters that might have been disclosed if we had been provided a representation letter, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former County Clerk for the period January 1, 2005 through June 7, 2005, in conformity with the regulatory basis of accounting.

The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, except for the effects of any matters that might have been disclosed if we had been provided a representation letter, is fairly stated in all material respects in relation to the financial statement taken as a whole.





The Honorable Harold Garrison, Fulton County Judge/Executive Honorable Lesia LaRue, Fulton County Clerk Members of the Fulton County Fiscal Court

In accordance with <u>Government Auditing Standards</u>, we have also issued our report dated July 15, 2005, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with <u>Government Auditing Standards</u> and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former County Clerk Should Not Have A Deficit Of \$31,794 In Her Official Fee Account As Of June 7, 2005
- The Former County Clerk Should Not Have Undeposited Receipts Of \$2,777 In The Official Fee Account From January 1, 2005 through June 7, 2005
- The Former County Clerk Expended \$2,372 More To Operate County Clerk's Office Than The Income Earned By The Office
- The Former County Clerk Should Remit \$37,463 In Unpaid Obligations
- The Former County Clerk Should Have Deposited Funds Intact On A Daily Basis
- The Former County Clerk Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Former County Clerk Should Have Submitted Quarterly Financial Reports To The Governor's Office For Local Development
- The Former County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the former County Clerk and Fiscal Court of Fulton County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Crit Luallen

Auditor of Public Accounts

Audit fieldwork completed - July 15, 2005

## FULTON COUNTY LESIA LARUE, FORMER COUNTY CLERK STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

#### For The Period January 1, 2005 Through June 7, 2005

#### Revenues

State Fees For Services		\$ 82
Fiscal Court		750
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$ 82,597	
Usage Tax	197,710	
Tangible Personal Property Tax	205,467	
Other-		
Fish and Game Licenses	1,507	
Marriage Licenses	1,483	
Deed Transfer Tax	12,439	
Delinquent Tax	25,864	527,067
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts	\$ 2,699	
Real Estate Mortgages	2,709	
Chattel Mortgages and Financing Statements	8,652	
Powers of Attorney	130	
All Other Recordings	2,146	16,336
Other:		
Clerk's Lien Fees	\$ 538	
Miscellaneous	407	945
Interest Earned		 191
Total Revenues		\$ 545,371

#### **FULTON COUNTY**

#### LESIA LARUE, FORMER COUNTY CLERK

STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS For The Period January 1, 2005 Through June 7, 2005 (Continued)

#### **Expenditures**

Payments to State:		
Motor Vehicle-		
Licenses and Transfers	\$ 65,755	
Usage Tax	191,779	
Tangible Personal Property Tax	59,856	
Licenses, Taxes, and Fees-		
Fish and Game	1,701	
Delinquent Tax	2,590	
Legal Process Tax	 2,562	\$ 324,243
Payments to Fiscal Court:		
Tangible Personal Property Tax	\$ 17,122	
Delinquent Tax	2,792	
Deed Transfer Tax	 11,817	31,731
Payments to Other Districts:		
Tangible Personal Property Tax	\$ 113,407	
Delinquent Tax	 15,511	128,918
Payments to Sheriff		303
Payments to County Attorney		1,674
Operating Expenditures:		
Personnel Services-		
Deputies' Salaries	\$ 13,594	
Materials and Supplies-		
Office Supplies	702	

#### **FULTON COUNTY**

#### LESIA LARUE, FORMER COUNTY CLERK

STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS For The Period January 1, 2005 Through June 7, 2005 (Continued)

#### Expenditures (Continued)

Operating Expenditures: (Continued) Other Charges-					
Conventions and Travel	\$	1,042			
Postage		700			
Overpayments		2,750			
Refunds		138			
Miscellaneous		475	\$ 19,401	\$	506,270
Unpaid Liabilities:					
Payments to State:					
Licenses and Transfers	\$	2,026			
Tangible Personal Property Tax		2,536			
Motor Vehicle Inventory		48			
Usage Tax Penalties		8,001	\$ 12,611		
Payments to Fiscal Court:					
Tangible Personal Property Tax			501		
Payments to Other Districts:					
Tangible Personal Property Tax	\$	3,664			
Delinquent Tax	Ψ	41	3,705		
Others:					
Sheriff	\$	47			
Office Supplies	Ψ	2,987			
Phone	·	501	 3,535		20,352
Total Expenditures				\$	526,622
Less: Disallowed Usage Tax Penalities				φ	8,001
Less. Disanowed Usage Tax Fehandes					0,001
Total Allowable Expenditures				\$	518,621
Net Revenues				\$	26,750
Less: Statutory Maximum				Ψ	27,547
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Excess of Allowable Expenditures Over Revenues				\$	(797)
Less: Expense Allowance					1,575
Excess of Expenditures Over Revenues				\$	(2,372)

#### FULTON COUNTY NOTES TO FINANCIAL STATEMENT

June 7, 2005

#### Note 1. Summary of Significant Accounting Policies

#### A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

#### B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for January 1, 2005 through June 7, 2005 services
- Reimbursements for January 1, 2005 through June 7, 2005 activities
- Payments due other governmental entities for tax and fee collections and payroll
- Payments due vendors for goods or services provided from January 1, 2005 through June 7, 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

#### C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

FULTON COUNTY NOTES TO FINANCIAL STATEMENT June 7, 2005 (Continued)

#### Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the period.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

#### Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The former County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of April 30, 2005 and June 7, 2005, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$10,102 and \$20,882 respectively of public funds uninsured and unsecured.

## FULTON COUNTY LESIA LARUE, FORMER COUNTY CLERK SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

#### As Of June 7, 2005

Cash in Bank Deposits in Transit Receivables: Uncollected Returned Checks Fish and Game Collections Bank Service Charges			\$ 1,634 108 66	\$ 110,102 1,704 1,808
Total Assets				\$ 113,614
<u>Liabilities</u>				
Paid Obligations-				
Outstanding Checks - 2004	\$	166		
Outstanding Checks - 2005		1,316	\$ 1,482	
Obligations Paid After June 7, 2005			 106,463	
Total Paid Obligations				\$ 107,945
Unpaid Obligations-				
Current Year-				
Commonwealth of Kentucky:				
Licenses and Transfers				
Weekly Report #23 (May 30 - June 3, 2005)	\$	1,934		
Weekly Report #24 (June 6 - June 7, 2005)		92		
Tangible Personal Property (June 1, 2005 - June 7, 2005)		2,536		
Missing Inventory Items		48		
Usage Tax Penalties		8,001	\$ 12,611	
Fulton County Treasurer:				
Tangible Personal Property (June 1, 2005 - June 7, 2005)			501	
Fulton County School Board:	<b>*</b>			
Tangible Personal Property (June 1, 2005 - June 7, 2005)	\$	1,144		
Fulton Independent School Board:		1 27 4		
Tangible Personal Property (June 1, 2005 - June 7, 2005)		1,374		

#### FULTON COUNTY LESIA LARUE, FORMER COUNTY CLERK SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS As Of June 7, 2005 (Continued)

#### <u>Liabilities</u> (Continued)

Unpaid Obligations- (Continued) Current Year- (Continued)

Library District:			
Tangible Personal Property (June 1, 2005 - June 7, 2005)	\$ 125		
Health District:			
Tangible Personal Property (June 1, 2005 - June 7, 2005)	152		
Extension District:			
Tangible Personal Property (June 1, 2005 - June 7, 2005)	115		
Mental Health:			
Tangible Personal Property (June 1, 2005 - June 7, 2005)	50		
City of Fulton:			
Tangible Personal Property (June 1, 2005 - June 7, 2005)	489		
City of Hickman:			
Tangible Personal Property (June 1, 2005 - June 7, 2005)	179		
Hickman Fire District:			
Tangible Personal Property (June 1, 2005 - June 7, 2005)	36		
Soil Conservation District:			
Delinquent Tax (April 1, 2005 - April 30, 2005)	41		
Fulton County Sheriff:			
Delinquent Tax (January 1, 2005 - January 31, 2005)	47	\$ 3,752	
Other Vendors:			
Phone Service		501	
Office Supplies		2,987	\$ 20,352
11		 	
Prior Year-			
Fulton County Treasurer:			
Payroll Tax Withholdings	\$ 408		
Excess Fees - 2003	47	\$ 455	
Fulton County School Board:			
Tangible Personal Property (December 2004)	\$ 7,365		
Delinquent Tax (December 2004)	327		
Additional Delinquent Tax	30	7,722	
1		,	

#### FULTON COUNTY LESIA LARUE, FORMER COUNTY CLERK SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS As Of June 7, 2005 (Continued)

#### <u>Liabilities</u> (Continued)

Unpaid Obligations- (Continued)
Prior Year- (Continued)

Fulton Independent School Board:			
Tangible Personal Property (December 2004)	\$ 4,045		
Delinquent Tax (December 2004)	 164	\$ 4,209	
Library District:			
Tangible Personal Property (December 2004)	\$ 607		
Delinquent Tax (December 2004)	 58	665	
Health District:			
Tangible Personal Property (December 2004)	\$ 737		
Delinquent Tax (December 2004)	 41	778	
Extension District:	 		
Tangible Personal Property (December 2004)	\$ 558		
Delinquent Tax (December 2004)	 46	604	
Mental Health District:			
Tangible Personal Property (December 2004)	\$ 240		
Delinquent Tax (December 2004)	 14	254	
City of Fulton:			
Tangible Personal Property (December 2004)		1,430	
City of Hickman:			
Tangible Personal Property (December 2004)		789	
Hickman Fire District:			
Tangible Personal Property (December 2004)		159	
Soil Conservation District:			
Delinquent Tax (December 2004)		21	
Fulton County Sheriff:			
Delinquent Tax (December 2004)		 25	\$ 17,111
Total Unpaid Obligations			\$ 37,463
Total Liabilities			\$ 145,408
Total Deficit as of June 7, 2005			\$ (31,794)



#### FULTON COUNTY LESIA LARUE, FORMER COUNTY CLERK COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2005 Through June 7, 2005

#### STATE LAWS AND REGULATIONS:

1) The Former County Clerk Should Not Have A Deficit Of \$31,794 In Her Official Fee Account As Of June 7, 2005

The former County Clerk is responsible for a deficit of \$31,794 in her official bank account as of June 7, 2005. This deficit results from \$2,777 of undeposited 2005 receipts; \$8,001 of disallowed expenditures; \$2,372 of expenditures that exceeded the income of the office; and a prior year deficit of \$18,644. The disallowed expenditures are penalties assessed by the Department of Revenue for late tax payments. We recommend that the former County Clerk eliminate the \$31,794 deficit with a deposit of personal funds. The Office of the Attorney General is conducting an investigation of this matter.

County Clerk's Response:

None.

2) The Former County Clerk Should Not Have Undeposited Receipts Of \$2,777 In The Official Fee Account From January 1, 2005 Through June 7, 2005

#### KRS 522.050 states:

- (1) A public servant who is entrusted with public money or property by reason of holding public office or employment, exercising the functions of a public officer or employee, or participating in performing a governmental function, is guilty of abuse of public trust when:
  - (a) He or she obtains public money or property subject to a known legal obligation to make specified payment or other disposition, whether from the public money or property or its proceeds; and
  - (b) He or she intentionally deals with the public money or property as his or her own and fails to make the required payment or disposition.
- (2) A public servant is presumed:
  - (a) To know any legal obligation relative to his or her criminal liability under this section; and
  - (b) To have dealt with the public money or property as his or her own when:
    - 1. He or she fails to account upon lawful demand; or
    - 2. An audit reveals a shortage or falsification of accounts.

The former County Clerk had undeposited receipts or a shortage of \$2,777 in her 2005 bank account and \$9,533 in her 2004 bank account. The former County Clerk had total undeposited receipts of \$12,310 as of June 7, 2005. The Attorney General's Office is conducting an investigation of this matter.

County Clerk's Response:

None.

FULTON COUNTY LESIA LARUE, FORMER COUNTY CLERK COMMENTS AND RECOMMENDATIONS For The Period January 1, 2005 Through June 7, 2005 (Continued)

#### STATE LAWS AND REGULATIONS: (Continued)

3) The Former County Clerk Expended \$2,372 More To Operate County Clerk's Office Than The Income Earned By The Office

The former County Clerk's office had total revenues of \$545,371 and allowable expenditures of \$546,168 including the former County Clerk's maximum annual salary earned through June 7, 2005. Additionally, the former County Clerk was paid an expense allowance of \$1,575 that would only be allowable if she had excess fees. Therefore, the former County Clerk used \$2,372 more to operate the clerk's office than the office earned from January 1, 2005 through June 7, 2005. We recommend that the former County Clerk only expend available revenues.

County Clerk's Response:

None.

#### 4) The Former County Clerk Should Remit \$37,463 In Unpaid Obligations

The proper disposition of fees collected by the former County Clerk for delinquent tax, tangible tax collections and various other obligations, requires that these funds be distributed to the appropriate governmental agencies. These governmental agencies rely on these funds to provide services, and services could suffer if these funds are not received timely. The following governmental agencies are owed the amounts noted below, which includes amounts due from prior year and current year. The former County Clerk also owes vendors for phone service and office supplies.

Governmental Agencies	<u>Amount</u>		Governmental Agencies	<u>A</u>	<u>Amount</u>	
Commonwealth of Kentucky	\$	12,611	Mental Health District	\$	304	
Fulton County Treasurer		956	City of Fulton		1,919	
Futlon County School Board		8,866	City of Hickman		968	
Independent School Board		5,583	Hickman Fire District		195	
Library District		790	Soil Conservation District		62	
Health District		930	Fulton County Sheriff		72	
Extension District		719	Phone Service		501	
Office Supplies		2,987				

We recommend that the former County Clerk remit these funds to the governmental agencies and vendors.

County Clerk's Response:

None.

FULTON COUNTY LESIA LARUE, FORMER COUNTY CLERK COMMENTS AND RECOMMENDATIONS For The Period January 1, 2005 Through June 7, 2005 (Continued)

#### 5) The Former County Clerk Should Have Deposited Funds Intact On A Daily Basis

Technical Audit Bulletin 93-002 states, "that a county official is in violation of KRS 64.850, Commingling of Public Funds, if more than \$200 of public funds are accumulated and/or retained and not deposited into an official bank account intact on a daily basis." There were undeposited receipts of \$2,777 in the former County Clerk's fee account and bank deposits were made, on average, five days late. We recommend that funds be deposited on a daily basis. The Attorney General's Office is conducting an investigation of this matter.

County Clerk's Response:

None.

6) The Former County Clerk Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On April 30, 2005 and June 7, 2005, \$10,102 and \$20,882 respectively of the former County Clerk's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times.

County Clerk's Response:

None.

7) The Former County Clerk Should Have Submitted Quarterly Financial Reports To The Governor's Office For Local Development

KRS 68.210 states that the County Clerk is required to submit financial reports to the Governor's Office for Local Development (GOLD) on a quarterly basis, due 30 days from the end of each quarter. GOLD has not received any financial reports since June 30, 2003. The former County Clerk did not submit any of these reports to us for our review for calendar year January 1, 2005 through June 7, 2005. We recommend that the former County Clerk submit financial reports to GOLD as required by KRS 68.210.

County Clerk's Response:

None.

FULTON COUNTY LESIA LARUE, FORMER COUNTY CLERK COMMENTS AND RECOMMENDATIONS For The Year Ended January 1 - June 7, 2005 (Continued)

#### INTERNAL CONTROL:

- 1) The Former County Clerk Should Have Deposited Funds Intact On A Daily Basis (See Full Comment On Prior Page)
- 2) The Former County Clerk's Office Lacks Adequate Segregation Of Duties

The County Clerk's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. The following compensating controls should have been implemented to offset this internal control weakness:

- A deputy clerk should periodically compare the daily bank deposit to the daily checkout sheet
  and then compare the daily checkout sheet to the receipts ledger prepared by the County Clerk.
  Any differences should be reconciled. This procedure could be documented by initialing the
  bank deposit, daily checkout sheet, and receipts ledger.
- A deputy clerk should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. A deputy clerk should also compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled. This procedure could be documented by initialing the quarterly financial report.
- A deputy clerk should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. This procedure could be documented by initialing the bank reconciliation and the balance in the checkbook.
- Deputies should be cross-trained in order for the daily operations of the County Clerk's Office to proceed without delay in County Clerk's absence.

County Clerk's Response:

None.

#### PRIOR YEAR COMMENTS AND RECOMENDATIONS:

All prior year comments and recommendations were not corrected.

- The County Clerk Should Not Have A Deficit Of \$18,644 In Her Official Fee Account As Of December 31, 2004
- The County Clerk Should Not Have Undeposited Receipts of \$9,533 In Her Official Fee Account
- The County Clerk Expended \$8,429 More To Operate The County Clerk's Office Than Income Earned By The Office
- The County Clerk Should Remit \$17,111 To Governmental Agencies
- The County Clerk Should Deposit Funds Intact On A Daily Basis
- The County Clerk Should Submit Quarterly Financial Reports To The Governor's Office For Local Development
- The County Clerk's Office Lacks Adequate Segregation Of Duties

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



### AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harold Garrison, Fulton County Judge/Executive Honorable Lesia LaRue, Former Fulton County Clerk Members of the Fulton County Fiscal Court

> Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Fulton County Clerk for the period January 1, 2005 through June 7, 2005, and have issued our report thereon dated July 15, 2005. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fulton County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Former County Clerk Should Have Deposited Funds Intact On A Daily Basis
- The Former County Clerk's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.



Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards (Continued)

#### **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Fulton County Clerk's financial statement for the period January 1, 2005 through June 7, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under <u>Government Auditing Standards</u> and which are described in the accompanying comments and recommendations.

- The Former County Clerk Should Not Have A Deficit Of \$31,794 In Her Official Fee Account As Of June 7, 2005
- The Former County Clerk Should Not Have Undeposited Receipts Of \$2,777 In The Official Fee Account From January 1, 2005 through June 7, 2005
- The Former County Clerk Expended \$2,372 More To Operate County Clerk's Office Than The Income Earned By The Office
- The Former County Clerk Should Remit \$37,463 In Unpaid Obligations
- The Former County Clerk Should Have Deposited Funds Intact On A Daily Basis
- The Former County Clerk Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Former County Clerk Should Have Submitted Quarterly Financial Reports To The Governor's Office For Local Development

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Crit Luallen

**Auditor of Public Accounts** 

Audit fieldwork completed - July 15, 2005